

**BOARD OF INVESTMENT TRUSTEES  
MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS**

**MINUTES – OPEN SESSION**

December 3, 2004

11 North Washington Street, Suite 250  
Rockville, Maryland

Board Members Present:           Stephen Farber, Chair  
  Arthur Spengler, Vice-Chair  
  Mark Barnard  
  Tim Firestine  
  Sharon Cayelli  
  Joe Adler  
  Sandra Kaiser  
  Gino Renne  
  Beverley Swaim-Staley

Staff:                                 Linda Herman  
  Daniel Weiss  
  Joanne Tsai

Others Present:                     Mark Brubaker, Wilshire Associates

***CALL TO ORDER***

Mr. Farber called the open session of the Board to order at 8:35 a.m.

***APPROVAL OF MINUTES***

The Board unanimously approved the minutes of the September 9, 2004 open session, as amended.

***FUND PERFORMANCE REVIEW AND INVESTMENT OUTLOOK***

Mr. Brubaker presented Wilshire's performance analysis of the Employees' Retirement System as of September 30, 2004 and noted the total fund performance continued to be ranked in the top tier of Wilshire's Public Fund Universe. The ERS performance for the one year ended September 30 ranked at the 27th percentile or better than 73% of the public funds surveyed. He noted longer term performance, for the 5 and 10 year periods, continues to strengthen. The Board reviewed the performance results of the mutual funds offered in the Retirement Savings Plan and discussed Fidelity's Freedom Funds. Mr. Renne requested investment seminars and counseling sessions for participants be conducted at other County locations in addition to the COB. Mr. Weiss presented a risk/return analysis of the performance of public plans within the Wilshire universe for the five year period ending June 30, 2004. He noted no public plan of similar size to the ERS has been able to maintain above median return/risk rankings consistently in all periods.

## ***INVESTMENT COMMITTEE REPORT***

Mr. Barnard presented to the Board the report on the Investment Committee meeting.

**Semi-Annual Risk Report:** Ms. Herman discussed the results of the semi-annual risk report and quarterly reviews of the investment managers' portfolios for risk and compliance. The report noted areas of non-compliance with Board established guidelines, including securities held by BlackRock due to downgrades. The Board approved the following resolution:

**0412-01      *Resolved, That the Board permit BlackRock to continue to hold the downgraded securities of Qwest Capital Funding, CSC Holdings Inc., and MCI Inc.***

**Wilshire's Annual Review – All Plans:** Mr. Brubaker presented Wilshire's annual assessment of the Board's adherence to industry standards (as defined by Wilshire) related to the structure of the investment programs of the three retirement plans. Mr. Brubaker noted areas being addressed by the Board included the emerging markets manager search and structuring the quarterly investment reporting requirements for the deferred compensation plan. The Board expressed support for the usefulness of the document in providing assistance in evaluating areas that needed to be addressed.

**Emerging Markets Manager Search:** Mr. Weiss reviewed the search process noting the criteria used to select the candidates and the request for proposal process. The semi-finalists will make presentations to the Investment Committee in January with finalists presenting to the Board at the March meeting.

**Numeric Investors:** Ms. Herman discussed the two products offered by Numeric Investors, Core and Core Aggressive (in which the ERS is currently invested) and recent discussions with Numeric concerning changing the investment option or benchmark. Mr. Brubaker presented Wilshire's analysis of the differences in the two investment strategies, benchmarks and performance. After discussion, the Board approved the following resolution:

**0412-02      *Resolved, That the Board approves moving ERS assets from Numeric Investors' Core Aggressive Strategy to its Core strategy.***

**Wilshire's Asset/Liability Study:** Mr. Brubaker presented Wilshire's Asset/Liability Study which includes an evaluation of the risk/return efficiency of the current asset mix, projections of future portfolio returns, funded status, and projected growth of plan liabilities versus assets for the next ten years. Wilshire recommended the Board stay the course with its current asset allocation mix but recommended the Board review the potential of adding real estate investments to the ERS investment portfolio. The Board discussed the performance of REITs over the past few years and the diversification benefits of adding real estate to the portfolio. In addition, Wilshire recommended evaluating the possibility of expanding the current alternative asset sector to include other asset classes such as hedge funds, commodities, timber and secondaries and increasing the exposure to international equities. The Board discussed the recommendations and requested staff begin to review the various real estate investment options available.

**ERS Cash Flow Forecast:** Ms. Herman discussed the cash flow projection for FY 05 based on the actuarial projections for employer and employee contributions and the budgeted expenses for

the ERS. She noted that based on staff's analysis the additional cash required to fund benefit payments for FY 05 is \$38 million. Staff recommended that the Board continue to fund the monthly cash shortage through the redemption of the BGI Index Funds. The fund to be redeemed would be determined based on maintaining the current asset allocation targets established by the Board. The Investment Committee will review the allocation of funds to managers and investment sectors and address any rebalancing issues at their January meeting. After discussion, the Board approved the following resolution:

**0412-03      *Resolved, That the Board approves transferring cash required to fund benefit payments on a monthly basis, as presented, from the BGI Index Funds while maintaining the current asset allocation targets established by the Board.***

#### ***ADMINISTRATIVE COMMITTEE REPORT***

Mr. Firestine presented to the Board the report of Administrative Committee activities.

**Quarterly Review - Budget versus Actual Expenses - 9/30/04:** Mr. Firestine reviewed the budget versus actual expenses for the plans as of September 30, 2004. Ms. Herman updated the Board on the continuing negotiations with the County's Department of Public Works & Transportation's Facilities Division regarding the Board offices moving to the Executive Office Building. The targeted move date is the spring of 2005.

**Due Diligence/Continuing Education Quarterly Report – 9/30/04:** Mr. Firestine presented the quarterly update of the Due Diligence and Continuing Education expenses as of September 30, 2004, noting that two requests for travel had been approved by the Administrative Committee.

**FY 05 Estimated & FY 06 Requested Budgets:** Mr. Firestine presented the annual budget for the three retirement plans. He noted the actual FY 04 expenses were 17% below the approved budget due primarily to lower than anticipated salary costs and the re-negotiation of the rent charged. FY 05 expenses are projected to be 8% lower than the approved budget if the staff offices are relocated to the EOB in March 2005. FY 06 expenses are 10.5% lower than FY 05 due to the elimination of rent expense. After discussion, the Board approved the following resolution:

**0412-04      *Resolved, That the Board approves Board-related expenses associated with the ERS, RSP and Deferred Compensation budgets for FY 05 and FY 06, to be updated for salary and benefit changes as supplied by the Office of Management and Budget.***

**Retirement Savings Plan – Administrative Fee:** Mr. Firestine discussed the analysis of the Retirement Savings Plan's income and expenses prepared by staff. The surplus cash balance in the RSP was reduced from \$1,800,000 to \$524,215 at June 30, 2004 due to the employer contribution holiday of \$1,200,000 granted by the Board. Ms. Herman recommended the Board request CAO approval to begin charging an administrative fee for FY 06 to maintain a cash balance to fund annual expenses. The Board approved the following resolution:

**0412-05      *Resolved, That the Board recommends the CAO approve an administrative fee of .10 to be charged to all participating agencies for FY 06.***

**Wilshire Associates – Contract:** Mr. Firestine discussed the Board’s contract with Wilshire which will expire on June 30, 2005. Staff commented on Wilshire’s contribution to the success of the retirement plans over the past several years. After discussion, the Board approved the following resolution:

**0412-06        *Resolved, That the Board approves a one year extension of the Wilshire Associates contract until June 30, 2006 at which time a Request for Information will be issued.***

**2005 Board Calendar:** Mr. Firestine noted the proposed calendar for Board meetings held in 2005. The Board approved the following resolution:

**0412-07        *Resolved, That the Board approves the 2005 Board Calendar.***

***OTHER BUSINESS:***

**TPA Update:** Ms. Herman updated the Board on the status of the transition to CitiStreet to occur in mid-December for unrepresented employees and inactive participants. The Board discussed the transition of assets for the represented employees if the County approves the Union Sponsored Deferred Compensation Plan.

The Board discussed items on the workplan recommending no changes.

There being no further business of the Board, the open meeting session was adjourned at 11:30 a.m.

Respectfully submitted,

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Sandra P. Kaiser, Secretary